Market Commentary
Fourth Quarter 2018

Harbour Growth & Income Fund
Harbour Global Growth & Income Corporate Class

"In the short run, the market is a voting machine but in the long run it is a weighing machine."
– Benjamin Graham

The Harbour balanced funds were out of synch with investor preferences last year and we endured a difficult period for our clients. Ironically, our desire to be conservative was a significant contributing factor, and 2018 was one of those periods where our style was very much out of favour with the market. To maintain high active share, portfolio managers must accept that they will deviate substantially from market returns over shorter periods. It is always more comfortable of course to be on the winning side, but occasionally "different" means another style did better, and in 2018, that was the case.

As we reviewed each of our quarterly commentaries to you from earlier this year, it seemed that much of what we want to say now has been written over the past few quarters. The key factors can be best summarized as the following:

- Consensus earnings growth coming into 2018 for the United States was 26%. This was expected to be much higher than in other nations and was due to a significant extent to the Trump tax cuts.

- While the rest of the world was slowing as we moved through the year (due in no small part to the Trump trade policies that caused investment to be deferred until there was tariff clarity) the narrative was that the U.S. was apparently powering on, delivering high corporate earnings growth and benefitting from the repatriation of corporate offshore funds that carried the incentive to invest in productivity-enhancing capital equipment – a boost for future earnings growth.

- As the year progressed, to our minds, investors were treating the 2018 earnings growth forecasts as if they could be extrapolated into the future (rather than as a one-time tax-driven event) and viewed the U.S. as impervious to the global slowdown or trade concerns while the data was increasingly suggesting otherwise. The focus was on after-tax earnings (which were tax cut affected), rather than corporate profit margins and pre-tax earning power. With U.S. corporate margins near all-time highs, we felt, and continue to feel, that the

ability of U.S. corporations to grow profitability and materially in a slowing global economy was probably overestimated.

- In the United States, investors bought risk (growth/momentum equities and high-yield bonds) with impunity and sold conservative securities (value stocks, investment-grade bonds) to fund the purchases. As is our style, we went to where the best bargains were – often outside the United States, where valuations and growth expectations were more realistic to our mind.

- U.S. equity markets, particularly the Nasdaq, outperformed all others for most of the year, and investing in anything other than growth, or the U.S., was not rewarded – to the contrary, in fact. The S&P Value Index underperformed the S&P Growth Index by 900 basis points, the MSCI World Value Index hit a 17-year low relative to its growth counterpart, and investment-grade bonds delivered negative returns.

- All year, our portfolios suffered as cheap got cheaper, and optimism about the U.S. as an insulated economic island continued. Our style and process were consistent with the way we have always acted, but literally every attempt to add conservatism (trimming higher priced stocks and buying lower priced stocks) was – in the short term – wrong. The voting machine prevailed.

- Other than the narrow band of winning U.S. stocks (largely technology), it was also an exceptionally difficult year for multi-asset class managers such as ourselves to find places to protect capital. Usually in our endeavor to build balance, we structure our portfolios to include offsetting factors and asset classes, including elements that we know may be a drag at times but have the potential to go up when everything else in the portfolio goes down. In 2018, that was virtually impossible to execute. In late November, according to Deutsche Bank, 90% of the 70 asset classes tracked by the bank had delivered negative returns year to date – an unprecedented number, eclipsing the previous high of 84% set in 1920. For context, in 2017, only 1% of all asset classes delivered negative returns.

So 2018 was largely about buying U.S. risk to the exclusion of all else – a euphoria that we think was misplaced and wont ultimately be sustained. Individual stock selections did not matter as much as the big picture of where they were and whether they were appealing to the herd. By the end of the year, the market was starting to recognize that and we think in 2019, U.S. growth will be revealed to be less exciting than many thought last year, opening up investor minds to the validity of investing in more than just a narrow group of stocks. As value investors, we are used to being out of favour, and would also note that the case for investing with a strong historical manager who is temporarily underperforming is an important part of the rebalancing that investors should pursue with

regularity. Our largest holdings, names that we have discussed with you previously, include such high-quality companies as:

- Sony, a diversified technology hardware and content company in the gaming, music, film and camera sensor business, with multiple points of optionality and trading currently at 10 times earnings and a 14% free cash yield to enterprise value. In the short term, the stock has been negatively affected by slowing handset sales and negative sentiment around Apple, but as cell phones with multiple-cameras proliferate, this element of Sony's business is extremely well positioned and we believe positive investor sentiment will return.

- Fairfax India Holdings, a unique permanent capital vehicle invested in India alongside founder and chief executive officer Prem Watsa, with key stakes in financial group IIFL Holdings and the fast-growing Bangalore International airport, currently trading at 4.5 times earnings and below book value (well below its historical range) with ample liquidity. The company is exposed to one of the world's fastest growing markets, non-correlated to most others.

- Renewable power generator Boralex, which was shunned by investors in 2018 on the back of below average wind (in France) and hydro production (in the U.S.) and negative rhetoric about renewables from new Ontario premier Doug Ford. Wind and hydro tend to be variable and are already showing signs of returning to long term trends, and the company has a strong growth pipeline and is trading at just over five times cash flow, paying a 3.8% dividend.

We think these, as with the other names in our portfolios, are solid investments for the long term. In the short term, investor sentiment can play a powerful role and everyone feels more comfortable in the crowd. Our portfolios continue to be positioned conservatively and diversified globally. In the long term, our investor portfolios are best served by including their own diversification, to managers of differing styles, and rebalancing regularly.

Please visit our blog at blogs.ci.com/harbour/ to hear the latest views and commentary from each of the members of our team.

Roger Mortimer
Senior Portfolio Manager
CI Global Investments Inc.

Market Commentary
Fourth Quarter 2018

Class F Returns (in %) as at December 31, 2018	Year-to-date	1 year	3 year	5 year	10 year
Harbour Global Growth & Income Corporate Class	-11.7	-11.7	1.4	4.9	8.8
Harbour Growth & Income Fund	-13.1	-13.1	-0.5	1.1	4.7

IMPORTANT INFORMATION

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The indicated rates of return are the historical annual compound total returns net of fees (except for figures of one year or less, which are simple total returns) including changes in security value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

The statements contained herein are based on material believed to be reliable. Where such statements are based in whole or in part on information provided by third parties, they are not guaranteed to be accurate or complete. Market conditions may change which may impact the information contained in this document.

The contents of this piece are not to be used or construed as investment advice or as an endorsement or recommendation of any entity or security discussed.

Certain statements in this document are forward-looking. Forward-looking statements ("FLS") are statements that are predictive in nature, depend upon or refer to future events or conditions, or that include words such as "may," "will," "should," "could," "expect," "anticipate," "intend," "plan," "believe," or "estimate," or other similar expressions. Statements that look forward in time or include anything other than historical information are subject to risks and uncertainties, and actual results, actions or events could differ materially from those set forth in the FLS. FLS are not guarantees of future performance and are by their nature based on numerous assumptions. Although the FLS contained herein are based upon what CI Investments Inc. and the portfolio manager believe to be reasonable assumptions, neither CI Investments Inc. nor the portfolio manager can assure that actual results will be consistent with these FLS. The reader is cautioned to consider the FLS carefully and not to place undue reliance on FLS. Unless required by applicable law, it is not undertaken, and specifically disclaimed that there is any intention or obligation to update or revise FLS, whether as a result of new information, future events or otherwise.

CI Investments®, the CI Investments design, Harbour Advisors and Harbour Funds are registered trademarks of CI Investments Inc. Harbour Advisors is a division of CI Investments Inc. Certain funds associated with Harbour Advisors are sub-advised by CI Global Investments Inc., a firm registered with the U.S. Securities and Exchange Commission and an affiliate of CI Investments Inc. Certain portfolio manager(s) of CI Global Investments Inc. are associated with Harbour Advisors.

Published February 2019.